1 October 2012

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs

RESPONSE TO DRAFT IFRIC INTERPRETATION DI/2012/2 *PUT OPTIONS WRITTEN ON NON-CONTROLLING INTERESTS*

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Draft IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests* (the DI) issued by the International Accounting Standards Board (the Board)'s IFRS Interpretations Committee (the Committee) in May 2012.

General

We appreciate the Committee's efforts in developing guidance to address existing practice diversity in the accounting for the subsequent measurement of put options written on non-controlling interests (written NCI puts).

However, we are concerned with the narrow focus of this project, which does not address the broad range of issues arising from derivatives on NCI that do not change the relative interests in a subsidiary that are held by the parent and the NCI shareholder.

Specifically, we understand that diversity in practice also exists for:

- Accounting for the subsequent measurement of other NCI derivatives that create an obligation under paragraph 23 of IAS 32 *Financial Instruments: Presentation* (such as NCI forward contracts)
- Initial recognition of written NCI puts and other NCI derivatives that are within the scope of IAS 32 paragraph 23 (whether NCI should be derecognised or which component of equity should be debited)

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- Accounting for the settlement of written NCI puts and other NCI derivatives that are within the scope of IAS 32 paragraph 23 (how IAS 32 interacts with IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* and IAS 27 *Consolidated and Separate Financial Statements* or IFRS 10 *Consolidated Financial Statements*, i.e. whether the difference arising from the reversal of the financial liability (carrying amount on settlement date) and the equity (measured at the present value of redemption amount) on de-recognition of the written NCI put/other NCI derivative relates to an equity transaction under IAS 27 or IFRS 10 (i.e. difference is recognised directly in equity) or an extinguishment of a financial liability under IAS 39 or IFRS 9 (i.e. difference is recognised in profit or loss))
- Accounting for synthetic NCI forwards, i.e. symmetrical put and call options (whether or not such synthetic instruments should be accounted for as single combined instruments that are akin to NCI forward contracts in accordance with paragraph 23 of IAS 32)
- Accounting for written put options that oblige the parent to purchase NCI for a variable number of its own equity instruments or equity instruments in another subsidiary (whether a variable number of equity instruments of the parent or another subsidiary is considered "cash or another financial asset" under paragraph 23 of IAS 32)
- Accounting for written put options on equity instruments of subsidiary that are granted under share-based payment arrangements (whether IAS 32 or IFRS 2 *Share-based Payment* applies)

Notwithstanding the above, we acknowledge that most of the broader issues may fall outside the scope of work of the Committee and that these issues are unlikely to be resolved in a holistic manner by the Board any time soon. As such, subject to our comments set out below, we support the development of the limited focus interpretive guidance that is based on existing IFRS principles as a pragmatic interim measure to address the existing practice diversity.

We urge the Board to include and consider the broader issues in a holistic manner in the "Financial Instruments with the Characteristics of Equity" project, which the Board has expressed support to be added to its research programme pursuant to its three-yearly agenda consultation project, with the aim of developing more robust and principle-based guidance.

Our comments on the specific questions in the DI are as follows:

Question 1 – Scope

The draft Interpretation would apply, in the parent's consolidated financial statements, to put options that oblige the parent to purchase shares of its subsidiary that are held by a non-controlling-interest shareholder for cash or another financial asset (NCI puts). However, the draft Interpretation would not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 *Business Combinations* (2004) because IFRS 3 (2008) provides the relevant measurement requirements for those contracts.

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Do you agree with the proposed scope? If not, what do you propose and why?

Amendments to the scope of the DI

We are of the view that the following amendments should be made to the scope of the DI:

(i) ***Clarify*** that the DI applies only to financial instruments that are within the scope of IAS 32 since the DI is premised on the requirements in IAS 32. This would provide clarity that the DI would not apply to written NCI puts that are outside the scope of IAS 32 such as those that are accounted for as interests in subsidiaries under IAS 27 and IFRS 10 (e.g. written NCI puts that, in substance, currently give access to the returns associated with the underlying ownership interests in the subsidiary) or are issued as part of the group's share-based payment transactions to which IFRS 2 applies.

(ii) ***Include*** other NCI derivatives that are required to be accounted for in accordance with paragraph 23 of IAS 32 (e.g. NCI forward contracts) within the scope of the DI to ensure consistent accounting for all NCI derivatives that are accounted for in accordance with that paragraph in IAS 32.

(iii) ***Exclude*** written NCI puts that form part of contingent consideration under IFRS 3 (2008) *Business Combinations* from the scope of the DI on the following grounds:

- We note that the DI proposes an accounting treatment for written NCI puts that is different from the requirements for contingent consideration as prescribed by IFRS 3 (2008). Specifically, IFRS 3 (2008) requires contingent consideration that is classified as financial liability to be recognised at ***fair value*** and subsequently measured at ***fair value through profit or loss***. In contrast, the DI proposes that the financial liability is recognised at the ***present value of the redemption amount*** and subsequently measured in accordance with IAS 39 or IFRS 9, which is generally at ***amortised cost***. As such, we are of the view that the DI should exclude written NCI puts that form part of contingent consideration in business combinations to avoid creating conflicts with the existing requirements of IFRS 3 (2008); and

- We understand that contingent consideration is ***part of the exchange for control of the acquiree***, the settlement of which typically does not result in the acquisition of additional interests in the acquiree. It is therefore unclear whether IFRS 3 (2008) had intended written NCI puts that are issued in business combinations to be accounted for as contingent consideration since they typically do not meet the definition of contingent consideration. In this regard, we note that the Committee had, in November 2006, rejected a request for clarification on whether an NCI put or forward in a business combination meets the definition of contingent consideration due to the belief that it could not develop guidance more quickly than it was likely to be developed in the business combination project. Unless and until this issue has been carefully analysed, we believe such written NCI puts should be excluded from the DI.

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Drafting amendments

Based on the current drafting, the DI appears to apply only to put options that are written by the parent on the equity instruments of its subsidiary for cash or another financial asset. However, we believe that the DI should also apply to put options that are written by any entity within the group on the equity instruments of another entity within the group since these contracts similarly create a contractual obligation for the group to purchase its own equity instruments under paragraph 23 of IAS 32.

Accordingly, we propose the following drafting amendments to be made to paragraphs 1 and 4 of the DI:

Paragraph 1: *"A parent (or an entity within the group) may write a put option on the ~~shares~~ equity instruments of its subsidiary (or another entity within the group) held by a non-controlling-interest shareholder that obliges the ~~parent~~ group to purchase those ~~shares~~ equity instruments for cash or another financial asset. That put option may be written as part of, or separately from, a business combination in which the parent obtains control of the subsidiary."*

Paragraph 4: *"The [draft] Interpretation applies, in the parent's consolidated financial statements, to put options that oblige the parent (or an entity within the group) to purchase ~~shares~~ equity instruments of its subsidiary (or another entity within the group) that are held by a non-controlling-interest shareholder for cash or another financial asset."*

Question 2 – Consensus

The consensus in the draft Interpretation (paragraphs 7 and 8) provides guidance on the accounting for the subsequent measurement of the financial liability that is recognised for an NCI put. Changes in the measurement of that financial liability would be required to be recognised in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*.

Do you agree with the consensus proposed in the draft interpretation? If not, why and what alternative do you propose?

We agree with the proposed consensus to recognise changes in the measurement of financial liabilities arising from written NCI puts in profit or loss, on the basis that it is consistent with paragraph 23 of IAS 32 and the requirements in IAS 39/IFRS 9 pertaining to the measurement of financial liabilities.

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Question 3 – Transition

Entities would be required to apply the draft Interpretation retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Do you agree with the proposed transition requirements? If not, what do you propose and why?

We agree with the proposed transition requirements.

We hope that our comments will contribute to the Committee's deliberation on the DI. Should you require any further clarification, please contact the project manager Siok Mun LEONG at leong_siok_mun@asc.gov.sg.

Yours faithfully

Suat Cheng GOH
Technical Director
Singapore Accounting Standards Council

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c/o Ministry of Finance, 100 High Street, #10-01, The Treasury, Singapore 179434.
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